



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MONTGOMERY COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**April 24, 2000**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**MONTGOMERY COUNTY**  
**FRED SHORTRIDGE, SHERIFF**  
**SHERIFF'S SETTLEMENT - 1999 TAXES**  
**APRIL 24, 2000**

The Sheriff had adequate records available to audit. The settlement was not accurate due to the wrong assessments being used for exonerations, caused by office staff not knowing which tangible bills were due state only and which were billed to all the districts. Overall, auditors were able to determine amounts owed to the districts and with reasonable assurance that the settlement was materially correct.

Noncompliances noted were as follows:

- Sheriff Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits Of \$2,758,627
- Sheriff Did Not Pay Board Of Education Proper Share Of Interest Earned On Monthly Basis
- Sheriff Did Not Present His Annual Settlement To The Fiscal Court
- Sheriff Did Not Publish His Annual Settlement Within 30 Days



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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

### Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 1999 Taxes as of April 24, 2000. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid as of April 24, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable B. D. Wilson, Montgomery County Judge/Executive  
Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we present comments and recommendations, included herein, which discusses the following areas of noncompliance.

- Sheriff Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits Of \$2,758,627
- Sheriff Did Not Pay Board Of Education Proper Share Of Interest Earned On Monthly Basis
- Sheriff Did Not Present His Annual Settlement To The Fiscal Court
- Sheriff Did Not Publish His Annual Settlement Within 30 Days

In accordance with Government Auditing Standards, we have also issued a report dated September 7, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 7, 2000



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

April 24, 2000

| <u>Charges</u>                             | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate                                | \$ 447,804          | \$ 830,094                          | \$ 2,233,205        | \$ 864,096         |
| Tangible Personal Property                 | 91,966              | 159,101                             | 410,640             | 263,199            |
| Intangible Personal Property               |                     |                                     |                     | 63,007             |
| Fire Protection                            | 194                 |                                     |                     |                    |
| Franchise Corporation                      | 40,014              | 73,555                              | 186,315             |                    |
| Prior Year Additional Bills                | 104                 | 198                                 | 455                 | 180                |
| Additional Billings                        | 378                 | 725                                 | 1,800               | 1,811              |
| Prior Year Franchise                       | 566                 | 891                                 | 2,526               |                    |
| Increased Through Erroneous<br>Assessments | 162                 | 325                                 | 753                 | 1,833              |
| Penalties                                  | 3,348               | 6,381                               | 16,550              | 7,044              |
| Adjusted to Sheriff's Receipt              | 1,407               | 1,757                               | 6,281               | 373                |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| Gross Chargeable to Sheriff                | \$ 585,943          | \$ 1,073,027                        | \$ 2,858,525        | \$ 1,201,543       |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| <u>Credits</u>                             |                     |                                     |                     |                    |
| Discounts                                  | \$ 8,133            | \$ 14,813                           | \$ 39,706           | \$ 18,114          |
| Exonerations                               | 6,105               | 11,587                              | 28,815              | 7,971              |
| Delinquents:                               |                     |                                     |                     |                    |
| Real Estate                                | 16,601              | 30,969                              | 82,708              | 31,877             |
| Tangible Personal Property                 | 230                 | 412                                 | 1,026               | 3,801              |
| Intangible Personal Property               |                     |                                     |                     | 257                |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| Total Credits                              | \$ 31,069           | \$ 57,781                           | \$ 152,255          | \$ 62,020          |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| Net Tax Yield                              | \$ 554,874          | \$ 1,015,246                        | \$ 2,706,270        | \$ 1,139,523       |
| Less: Commissions *                        | 23,870              | 32,449                              | 108,251             | 48,717             |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| Net Taxes Due                              | \$ 531,004          | \$ 982,797                          | \$ 2,598,019        | \$ 1,090,806       |
| Taxes Paid                                 | 529,083             | 978,356                             | 2,593,107           | 1,088,405          |
| Credit For Commissions Per KRS 134.290     |                     |                                     |                     | 6                  |
| Refunds (Current and Prior Year)           | 760                 | 3,778                               | 3,534               | 2,235              |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |
| Due Districts                              |                     | **                                  |                     |                    |
| as of Completion of Fieldwork              | \$ 1,161            | \$ 663                              | \$ 1,378            | \$ 172             |
|  | <u>          </u>   | <u>          </u>                   | <u>          </u>   | <u>          </u>  |

\* and \*\* See Page 4

MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES  
April 24, 2000  
(Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 2,381,298 |
| 4% on    | \$ | 2,706,270 |
| 1% on    | \$ | 318,345   |

\*\* Special Taxing Districts:

|                    |    |            |
|--------------------|----|------------|
| Library District   | \$ | 52         |
| Health District    |    | 66         |
| Extension District |    | 38         |
| Ambulance District |    | 400        |
| Fire District      |    | <u>107</u> |

|               |    |                   |
|---------------|----|-------------------|
| Due Districts | \$ | <u><u>663</u></u> |
|---------------|----|-------------------|

The accompanying notes are an integral part of the financial statement.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 24, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 1, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$2,758,627 of public funds uninsured and unsecured.

MONTGOMERY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 24, 2000  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 1, 1999.

|  | <u>Bank Balance</u> |
|--|---------------------|
| Collateralized with securities held by pledging depository institution in the county official's name | \$ 1,000,000        |
| Uncollateralized and uninsured   | <u>2,758,627</u>    |
| Total  | <u>\$ 3,758,627</u> |

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 1999 through April 24, 2000.

Note 4. Interest Income

The Montgomery County Sheriff earned \$626 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute; the remainder will be used to operate the Sheriff's office.

## COMMENTS AND RECOMMENDATIONS



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

April 24, 2000

STATE LAWS AND REGULATIONS:

- 1) Sheriff Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits Of \$2,758,627
- 

On December 1, 1999, \$2,758,627 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*I will call the bank and up the pledges to the amount needed.*

- 2) Sheriff Did Not Pay Board Of Education Proper Share Of Interest Earned On Monthly Basis

The Sheriff did not pay interest to the school monthly as required by KRS 134.140. Subsection (3)(b) of this KRS requires the Sheriff to pay monthly (at the time of his monthly distribution of taxes to the board(s) of education) that part of investment earnings for the month which is attributable to the investment of school taxes. The remaining monthly interest should be transferred to the Sheriff's fee account. The Sheriff also did not pay his portion of interest over to his fee account as required. We recommend that the Sheriff pay the School and his fee account their portion of interest earned monthly as required by KRS 134.140.

*Sheriff's Response:*

*I agree and will comply in the future.*

- 3) Sheriff Did Not Present His Annual Settlement To The Fiscal Court

The Sheriff did not present his 1999 tax settlement to the fiscal court as required by KRS 134.310 (1). The sheriff shall annually settle his accounts for county and district taxes with the fiscal court, after making settlement with the Revenue Cabinet. We recommend that the Sheriff present his annual settlement to the Fiscal Court.

*Sheriff's Response:*

*I agree and will comply in the future.*

MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
April 24, 2000  
(Continued)

4) Sheriff Did Not Publish His Annual Settlement Within 30 Days

The Sheriff did not publish his annual settlement as required. KRS 134.310 states that the Sheriff shall publish his annual settlement within 30 days after presenting it to the fiscal court. We recommend that the Sheriff publish his settlement, in the future, as required.

*Sheriff's Response:*

*I agree and will comply in the future.*



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





## Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable B. D. Wilson, Montgomery County Judge/Executive  
Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

### Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 1999 Taxes as of April 24, 2000, and have issued our report thereon dated September 7, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement - 1999 Taxes as of April 24, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable B. D. Wilson, Montgomery County Judge/Executive  
Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 7, 2000

